

DOCUMENT RESUME

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[Review of Department of Agriculture Audits and Investigations of the Farmers Home Administration Activities in the State of Maine]. CED-77-115; B-114873. August 5, 1977. 7 pp.

Report to Rep. David P. Emery; by Elmer B. Staats, Comptroller General.

Issue Area: Internal Auditing Systems: Audit Reports Quality and Followup (203).

Contact: Community and Economic Development Div.

Budget Function: Community and Regional Development: Community Development (451).

Organization Concerned: Department of Agriculture; Farmers Home Administration.

Congressional Relevance: Rep. David P. Emery.

The scope and thoroughness of the audits and investigations of the Farmers Home Administration (Agency) activities in Maine by the Department of Agriculture's Office of Audit and Office of Investigation were complete and unrestricted. There were no indications that Agency headquarters officials were involved in or influenced the findings and conclusions reported by Agriculture auditors and investigators. Investigation of the removal of a special agent as the agent-in-charge from the investigation of land transactions in Maine revealed no evidence that the removal was intended to cover up any material findings. Findings/Conclusions: The audit reports reviewed contained valid findings and conclusions which were adequately supported by the workpapers. The investigation reports met the requirements of Agriculture regulations, which state that the Investigation Office issues factfinding reports. These reports contained no conclusions or recommendations for legal or disciplinary action. Although auditors followed the accepted practice of holding preliminary informal discussions with Agency headquarters officials as findings were developed, comparison of the initial draft reports with the final draft reports did not show that any pertinent information was deleted. The decision to remove the special agent as the agent-in-charge resulted from the uncertainty of his availability at that time due to his physical condition. (SC)



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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03118

The Honorable David F. Emery
House of Representatives

Dear Mr. Emery:

In response to your February 7, 1977, letter, we reviewed the actions of the Department of Agriculture's Office of Audit and Office of Investigation on Farmers Home Administration (Agency) activities in Maine between April 1976 and July 1977. You expressed dissatisfaction with Agriculture's responses to inquiries covering various audits and investigations.

Your request was based on an understanding that the Department of Justice and the Offices of Audit and Investigation spent much time and effort reviewing certain land transactions in Maine. You requested that we determine the (1) scope and thoroughness of the audits and investigations (including details and justifications of any limitations) and the validity of any conclusions, (2) extent of influence Agency headquarters officials have on the findings and conclusions reported by field auditors and investigators, and (3) reasons an Investigation Office special agent was removed from the investigation of land transactions.

We reviewed 1 audit report issued in December 1976, 2 audit reports issued in July 1977, 11 investigation reports issued between September 1976 and April 1977, and related workpapers and certain control records of the Investigation Office. We also discussed these matters with the Offices of Audit and Investigation officials in Washington, D.C.; Hyattsville, Maryland; and New York, New York.

We did not review any work performed by the Justice Department. Determining whether violations have occurred that justify legal action is within Agriculture's jurisdiction.

This letter summarizes the information developed during our review and presented to you in a briefing on May 26, 1977. As agreed with your office, we discussed the results of our review with the Offices of Audit and Investigation officials. Their comments were considered in finalizing this report.

CED-77-115

SCOPE AND THOROUGHNESS OF THE AUDITS AND
INVESTIGATIONS AND VALIDITY OF ANY CONCLUSIONS

The scope and thoroughness of the audits and investigations performed were complete and unrestricted. The audit reports contained valid findings and conclusions, which were adequately supported by the workpapers. The investigation reports met the requirements of Agriculture regulations, which state that the Investigation Office issues factfinding reports. Office of Investigation officials told us that these reports contained no conclusions or recommendations for legal or disciplinary action.

Background

The audits and investigations of Agency activities in Maine were conducted to examine various complaints made by a State agency. They dealt with Agency business practices and the relationships of some employees with contractors and realtors. Because of the nature of the complaints, the Justice Department and the Offices of Audit and Investigation met to coordinate their reviews. From these meetings came the following agreements.

- The Office of Audit would perform the preliminary survey work and refer audit findings concerning control over Agency funds and potential conflicts of interest to the Office of Investigation.
- The Office of Investigation would investigate allegations concerning control of Agency funds and conflicts of interest and refer any information developed on fraud or bribery to the Justice Department.

Office of Audit

The preliminary survey resulted in an audit report dated December 13, 1976, on Agency employee conduct and activities in Maine. During our review of this report, we noted that the survey:

- Was directed toward a review of personal real estate transactions by Agency State and county supervisory personnel in Maine to determine (1) the nature and extent of such transactions, (2) whether any such transactions involved Agency borrowers, and (3) the extent of involvement of Agency loan funds.

- Was limited to reviews of grantor/grantee real estate transactions between fiscal years 1967-76, as recorded in the 18 Registry of Deeds offices serving the 16 counties in Maine.
- Involved a comparison of the information obtained from the grantor/grantee indexes with the May 1976 listing of Maine Agency employees and computer listings of all present and paid-up Agency borrowers.
- Did not include a review of any Agency State or county records or interviews with any of the Agency employees found to be involved in personal real estate transactions. These interviews were handled by the Investigation Office.
- Disclosed 106 personal real estate transactions in five counties involving eight Maine Agency county office employees, of which 35 transactions were in Kennebec County and 41 in Waldo County.

On the basis of this information, the Audit Office decided to make followup audits in Waldo and Kennebec Counties. Our review of the preliminary draft audit reports dated March 24, 1977, for each of these counties noted that the audits:

- Were made to determine if the personal involvement of Agency employees in land transactions had an adverse impact on the administration of programs.
- Included all aspects of program operations for fiscal years 1975 and 1976.
- Disclosed program irregularities relating to (1) property in Government inventory that was improperly managed by county office personnel, (2) weaknesses in administering the Rural Housing Program, (3) insufficient control over payment assignments to the county office to protect the Agency's position, (4) the lack of thorough followup action in response to borrower complaints and related congressional inquiries, and (5) Agency loan applicants' not being given a choice of designated attorneys to represent them.

The Office of Audit agreed to provide your office, on request, copies of the final audit reports for Waldo and Kennebec Counties.

Office of Investigation

On the basis of the information received from the Audit Office concerning control of Agency funds and potential conflicts of interest, the Investigation Office issued 11 reports between September 1976 and April 1977. Our review of the reports and related workpapers, as well as discussions with Office Of Investigation officials, revealed that the:

- Scope of the investigations was unlimited.
- Investigations were complete and thorough, with all investigative leads developed to the fullest extent possible.
- Reports contained no conclusions or recommendations. However, the reports were referred to Agriculture's Office of the General Counsel and the Agency's Office of Personnel, since those offices make the decisions on any legal or disciplinary actions, respectively.

An Office of the General Counsel official said that the 11 reports were referred to the U.S. Department of Justice Attorney in Maine for legal action. As of May 31, 1977, all of the reports were still under that jurisdiction and accordingly could not be released. The Investigation Office plans no further action at this time.

EXTENT OF INFLUENCE AGENCY HEADQUARTERS
OFFICIALS HAVE ON FINDINGS AND CONCLUSIONS
REPORTED BY AUDITORS AND INVESTIGATORS

We could not find any indications that Agency headquarters officials were involved in or influenced the findings and conclusions reported by Agriculture auditors and investigators.

In our discussions with Office of Audit officials, we learned that the auditors followed the accepted practice of holding preliminary informal discussions with Agency headquarters officials as findings were developed. In addition, we compared initial draft reports to the final draft reports to determine if pertinent information was deleted.

Although we found one case where references to a State Agency official involved in personal real estate transactions had been deleted, the Audit Office provided adequate documentation to justify this action.

The Secretary of Agriculture delegated the Office of Investigation authority for initiating, controlling, and directing all investigations. It is also responsible for investigating Agriculture operations, employees, contractors, and grant recipients. Agriculture regulations require the issuance of factfinding reports. On the basis of our review of certain workpapers, it appears that all relevant information was included in the investigation reports.

REASONS FOR REMOVAL OF AN OFFICE OF
INVESTIGATION SPECIAL AGENT FROM THE
INVESTIGATION OF LAND TRANSACTIONS IN MAINE

We found that one special agent was removed as agent-in-charge from the investigation of land transactions in Maine, but not from the investigation. Instead, he continued to assist in the investigation. No evidence existed that his removal as agent-in-charge was intended to cover up any material findings.

An Office of Investigation official said that management decided to remove him as agent-in-charge since his availability at that time was uncertain because of his physical condition. He added that the investigation's high priority not only required additional staffing by other agents from the field but the presence of a dependable agent-in-charge.

In July 1976 the agent removed as agent-in-charge received a complaint from an Agency borrower about potential criminal violations involving poultry houses in central Maine. In accordance with Agriculture regulations, the agent obtained all readily available information and submitted it to his regional director for a decision on whether an investigation should be scheduled.

Office of Investigation officials told us that the agent deviated from normal operating procedures during the investigation of land transactions by continuing to gather information on poultry houses in central Maine after bringing the matter to his regional director's attention.

The officials said that in the interest of completing the investigation of land transactions as quickly as possible,

the agent in question was instructed to "put blinders on" concerning poultry houses and to concentrate on the investigation of land transactions.

On the basis of this information and that which follows, it appears that this instruction to the agent was not intended to cover up any potential criminal violations related to poultry houses.

ADDITIONAL INFORMATION OBTAINED
FROM THE OFFICE OF INVESTIGATION
AS A RESULT OF OUR BRIEFING

As a result of additional questions you raised in our May 26, 1977, briefing, we agreed to obtain more information on poultry house construction in Maine regarding (1) discrepancies between the time the Investigation Office field staff received a complaint on poultry house construction and the time it was forwarded to headquarters for further investigation and (2) the current status of the Justice Department investigation on poultry house construction.

Discrepancies between the time information
was received in the field and headquarters

On the basis of leads provided in mid-September 1976 by the Justice Department and in early October 1976 by the Audit Office, the Investigation Office followed up and obtained all readily available complaint information on poultry house construction in central Maine. We noted that the information developed was summarized in October 1976 in two internal memorandums to justify further investigation.

An Office of Investigation official told us that the primary reason an investigation was not initiated between October and December 1976 was because special emphasis was placed on completing land transactions work and issuing the investigation reports. Our examination of control records showed that the Office scheduled an investigation of the poultry house construction industry for January 1977.

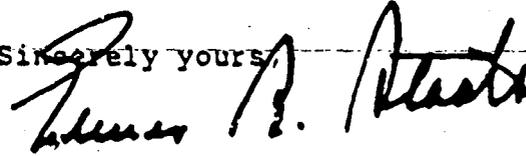
Current status of the Justice
Department investigation on
poultry house construction in Maine

An Office of Investigation official told us that between January and June 1977, they were precluded from conducting an

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investigation because the Justice Department has not relinquished jurisdiction of its investigation of the poultry house construction industry. Presently, the Investigation Office is unsure about the status of the Justice Department investigation. We were also informed that the Justice Department will contact the Investigation Office when it has completed its investigation.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Thomas A. Stewart". The signature is written in a cursive style with a large initial "T" and "S".

Comptroller General
of the United States